the right balance between customer and shareholder risk as telecommunications markets become more competitive.[126] As the Commission recognizes, the incumbent LEC's ability to recover its investment in a competitive market is dependent in part on depreciation practices that accurately reflect the decline in economic value of the LEC investment.[127] The question is one of transition, and specifically, whether incumbent LECs should be afforded relief with respect to their current booked investment during a time of regulatory change.

The answer to this question is yes, and such relief should be in the form a specific mechanism designed to recover the existing depreciation reserve imbalance. To assure that future imbalances are not created because of inadequate depreciation, LECs should be permitted to take control over their depreciation rates immediately. Permitting LECs the flexibility to set their own depreciation rates will eliminate the need for special action by the FCC in the future. Thus, from the point in time that LECs are permitted to establish their own depreciation rates, the LEC will be able to set its depreciation rates in accordance with the market.[128]

Moreover, as the NPRM recognizes, emerging competition and the reforms recently triggered by Congressional enactment of the 1996 Act make solving the depreciation problem especially important. As LEC markets become effectively competitive, LECs can recover (and earn a return on) only the economic value of their capital; they cannot recover capital that exceeds economic value, even if the capital is in the regulatory rate base.[129] And once this happens, it

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126 NPRM at ¶ 266.

127 *Id.*

128 Seven of the nine states in BellSouth's region have implemented price regulation rules that permit BellSouth to set its own depreciation rates

129 SPR, "The Depreciation Shortfall," at 4.

becomes too late for regulators to solve the problem by granting rate increases, because rates will be constrained by market forces.[130]

Of course, if the Commission were to adopt a prescriptive approach to access reform -- and it should not -- an amortization plan (or surcharge mechanism) would still be required to alleviate the depreciation shortfall. In the event that the Commission adopts an amortization plan, such a plan should be tied to the date that the Commission forbears from prescribing depreciation rates of price cap LECs, and not from some retroactive date, such as the date of enactment of the 1996 Act. Until the Commission implements meaningful. depreciation reform, it cannot and should not shift the risk of under-recovery to LEC investors.[131]

Finally, BellSouth notes that regardless of whatever approach is taken by the Commission to resolve the depreciation shortfall, LECs will continue to have their costs allocated to the interstate jurisdiction until separations reform is completed. In the interim, there remains a clear need -- and a legal and policy imperative -- for the Commission to implement some mechanism to ensure LEC cost recovery. Anything less would be inequitable and confiscatory.

VII. RATE STRUCTURE MODIFICATIONS AND OTHER ISSUES (paras. 55-139, 271-299)

The Commission seeks comments on various issues regarding what rate structure and other modifications to its Part 69 rules should be made regardless of whether or not it adopts a market-based, a prescriptive, or a combined approach in this proceeding. BellSouth discusses these matters below.

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130 *Id.*

131 To the extent the Commission implements an amortization plan, the Commission correctly notes that price cap LECs will account for the amortization through an exogenous adjustment to the price cap indices. NPRM at ¶ 270. Because LECs have established procedures for reflecting such exogenous adjustments, there would be no need for the Commission to implement special procedures to adjust PCIs, APIs and SBIs in response to exogenous treatment of any amortization.

A. Rate Structure Modifications (Paras. 55-139)

There are several important rate structure modifications which the Commission should adopt regardless of whether it adopts a market-based, a prescriptive, or a combined approach in this proceeding. Several aspects of the existing Part 69 rate structure rules constitute inefficient recovery mechanisms which are not suitable to today's environment. In the discussion below, BellSouth proposes a more efficient rate structure for the major Part 69 components involved.

BellSouth believes that it should be sufficient for the Commission to merely authorize LECs to adopt these proposed rate structure changes, rather than to prescribe them. However, if the Commission deems it necessary to prescribe these changes, then the new rate structure should be viewed as a "core" rate structure ("CRS") for all LECs. Under a CRS approach, LECs would be required to offer their switched access services under the CRS as a backstop protection, thus assuring the availability of a uniform rate structure for existing services that is available from all LECs. As the required core rate structure, the CRS would be implemented immediately and would assure a more efficient recovery of certain elements that may not be covered by the still to be established Universal Service Fund. At the same time, the CRS approach would not impede the LEC's ability to utilize alternative rate structures, for instance, for new services, for packaging of existing services and for alternative rate plans for existing services. As LECs offer new services and alternative rate structures, customers could choose from among services offered under the CRS and new services and alternative rate structures also made available by the LEC. In this manner, the LEC would have the flexibility to respond quickly to customers demands without the need for a waiver proceeding, while customers would be protected by the continued availability of the CRS approved by the Commission.

In the discussion which follows, BellSouth discusses each of the major rate structure categories identified by the Commission in the NPRM.

1. Common Line

a. CCL

BellSouth proposes that, as a part of the CRS, the Commission adopt a common line recovery mechanism which recognizes the need for a realignment of costs currently recovered from the existing carrier common line ("CCL") charges to other recovery mechanisms.

CCL revenues should be recovered by means of the first alternative mechanism mentioned by the Commission: a per line charge assessed to each interexchange carrier based upon the number of lines presubscribed to that carrier. In the event that the end user has not chosen a primary interexchange carrier, a per line charge should be assessed on the end user directly.[132] The "dial-around" problem discussed by the Commission[133] should not be a problem as interexchange carriers, given their non-dominant status and the Commission's forbearance policies, will be free to recover their assessed per presubscribed line charges by any number of means.

Amounts received from the new Universal Service Fund would first be used to reduce CCL charges. Thus, CCL long-term support amounts should be removed from CCL charges and recovered as a part of the new universal service support, in accordance with the Universal Service Federal-State Joint Board recommendations.[134] Any amounts in excess of long term support

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132 NPRM, para. 60.

133 *Id.*

134 *Recommended Decision* at ¶ 753.

would also be used to offset CCL charges. If the Universal Service Fund is insufficient to reduce CCL charges to zero, the remaining CCL charge amount should be recovered on a per line basis.[135] It should be noted that if the SLC is reduced per the Joint Board's recommendation (BellSouth does not support such an approach), then that reduction would need to be reflected in increased recovery from other common line cost recovery mechanisms.

b. SLCs

As part of the CRS, the entire base factor portion associated with the common line category should be recovered from subscriber line charges ("SLCs") for non-universal service supported lines (i.e., for second lines and multi-line business lines), with CCL charges correspondingly reduced.

The Commission should carefully review the recommendation that universal service support not be available for second residential lines. The distinction made by the Joint Board between primary lines and second lines will be virtually impossible to make, as a practical matter, in a multi-LEC environment. One carrier could provide one line and another carrier another line to the same end user, each claiming the line to be a supportable primary line. There would be no practical way to police such occurrences or, in many instances, to determine which line is entitled to a "primary line" treatment. A practical solution would include allowing universal service support for all residential voice grade access lines (primary and secondary).

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[135] The common line price cap index will already have been reduced by removal of payphone costs. In addition, the Commission should permit LECs the flexibility to deaverage the CCL per line charge.

If the Commission does not address this problem and refuses to provide support for second lines, then the SLC cap for unsupported lines should be removed, giving LECs the flexibility to raise the SLC on those lines.[136]

c. Assessment of SLCs on Derived Channels

As a part of the CRS, SLCs should apply for Integrated Services Digital Network ("ISDN") lines on a per service basis, i.e., one SLC for Basic Rate ISDN lines and one SLC for Primary ISDN lines.[137] As a part of the CRS, the Commission should allow the marketplace to determine the particular rate level appropriate for such SLC charges, and should permit LECs to offer alternative rate structures as they may deem it appropriate.

2. Local Switching

a. Non-traffic-sensitive charges

Those local switching costs associated with the line port are related to the provision of universal service, and as such, should be recovered from the new universal service fund. To the extent that the universal service fund does not cover these costs, LECs should be permitted to recover these costs on a per line basis from interexchange carriers. Flat-rate recovery is also appropriate for all other NTS local switching costs. Such costs are related more to the number of lines connected to the switch, rather than to the amount of traffic transversing the switch.

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[136] In addition, at some point in the future, deaveraging of SLC charges may be appropriate. Indeed, it is more economically efficient to have higher rates in areas where costs are higher. See Attachment 2, Haring and Rohlfs at 21: "Economic efficiency would be further increased if LECs geographically deaveraged SLCs." In light of this, the Commission should provide LECs with the flexibility to deaverage SLCs as a part of the CRS.

[137] *End User Common Line Charges*, CC Docket No. 95-72, BellSouth Comments, filed June 29, 1995, at p. 4.

b. Traffic-sensitive charges

The Commission seeks comment on a number of rate structure alternatives for the recovery of traffic-sensitive local switching costs. Alternatives such as call set-up charges, peak/off-peak pricing and others are described. These alternatives all clearly point to the fact that flexibility is needed in designing or fashioning a rate structure for usage-sensitive local switching charges. The Commission should permit LECs to offer alternative rate structures, to separately price and charge for call set-up, to zone price their local switching service and to offer peak and off-peak pricing. ILECs should be given this flexibility, within the context of the price cap basket and banding constraints, to design rates commensurate with the dictates of the competitive marketplace. This flexibility would also include the option to retain the existing minutes of use rate structure.

3. Transport

In this section, BellSouth discusses its proposed CRS for switched access transport and changes which should result from reallocation of amounts in the TIC, as is described Section VII.A.4. below.

a. Entrance Facilities and Direct-Trunked Transport Services

BellSouth supports a CRS for dedicated transport services of flat-rate charges for entrance facilities between the customer's location and the serving wire center ("SWC") and flat-rate recovery for direct-trunked transport between the SWC and end office ("EO"). In addition, a flat-rate structure should apply for dedicated transport between the customer's SWC and any other point designated by the customer, such as an access tandem ("AT"). Distance-sensitive pricing should be based upon the mileage between the locations designated by the customer. For

instance, if the customer requests dedicated transport all the way from its SWC to the EO, mileage should be based upon this distance. If the customer requests dedicated transport between the SWC and the AT, or between the SWC and a HUB, then the mileage would be measured based upon those distances, respectively. This structure is consistent with the manner in which costs are incurred for traditional switched access dedicated transport services.

In addition to the availability of this structure under the CRS, sufficient flexibility should be afforded for LECs to offer switched transport services utilizing alternative rate structures, as is the case for special access services already. For instance, LECs should be permitted to differentiate transport services based upon whether the customer has control over channel facility assignments ("CFA control"),[138] the extent to which the customer or the LEC actually manages the network, the particular reliability of the service and other aspects which define the functionality of a service. Depending upon how service arrangements are designed, provided, and packaged, different costs can be involved and customers can have legitimate perceptions of such services as functionally different from one another. The Commission should not, however, prescribe rate differentials for such new service offerings as a variety of factors, including not only the particular costs involved but also the market value of the service, should appropriately be the determining factors for each individual LEC.

b. Tandem-Switched Transport Services

i. Rate Structure

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[138] The Commission describes "CFA" as "the actual designation of the routing that a circuit takes within the LEC network." NPRM at n.157. BellSouth disagrees with this definition. "CFA" means "connecting facility assignment." CFA control means control over the assignment of channels terminating at a customer's location to particular time-slots on its terminating facility at that location.

BellSouth supports the elimination of the SWC to EO transport option for tandem-switched transport. The facilities utilized between the SWC and the AT are dedicated to the particular customer ordering the transport, in contrast with the facilities utilized between the AT and the EO which are shared in common for tandem-switched traffic of multiple customers. Given the dedicated nature of the transport between the SWC and the AT, flat-rate charges should apply for this component, as was discussed immediately above, based upon the mileage between the SWC and AT. In contrast, usage-based charges appropriately apply for tandem-switched traffic between the AT and the EO, as such a rate structure appropriately recognizes the shared characteristic of such transport for multiple customers.

The Commission should not mandate, as a part of the CRS, that LECs further disaggregate the tandem charge into traffic-sensitive and non-traffic-sensitive components. There are minimal non-traffic sensitive costs associated with tandem switching that could be readily identified. Rather, the Commission should permit LECs the flexibility to disaggregate as they deem appropriate, if the market demand for such further disaggregation arises. Similarly, LECs should be permitted, but not required, to offer peak/off-peak pricing and to utilize zone pricing for their for tandem-switched transport service, including the tandem charge, as they deem appropriate.

ii. Rate Levels

BellSouth supports, as a part of the CRS, a repricing of all components of tandem-switched transport. As discussed in more detail in Section VII.A.4.b.i. below, tandem-switched transport between the SWC and the AT should be repriced to reflect switched dedicated transport rates, measured from the SWC to the AT and should be placed with other switched dedicated

transport services for price caps purposes. Tandem-switched transport between the AT and the EO should be repriced to reflect removal from the TIC and reassignment of costs associated with additional multiplexing equipment and use of a lower minutes of use assumption per voice grade trunk. The tandem-switched transport rates should be further adjusted upward to reflect removal of circuit equipment and related cable and wire facilities from the TIC and their reassignment to the host-remote component of switched transport. The tandem charge should be adjusted upward to reflect removal of the 80% tandem cost (excluding CCS/SS7) from the TIC and its reassignment to the tandem charge. The tandem charge should at the same time be adjusted downward to reflect removal of the 20% of the CCS/SS7 costs that were assigned to the tandem.[139] Finally, 100% of CCS/SS7 costs should be removed to the new signaling rate elements.

4. Transport Interconnection Charge

a. Background

The Commission identified several ways in which to handle the TIC under its access reform proposals, such as letting market forces affect a downward pressure on TIC rates; correcting all misallocations; adopting a combination of these two; and requiring the TIC rates to be lowered and phased out over a period of a few years.

BellSouth proposes that the Commission reassign certain portions presently in the TIC by reassigning the associated revenue requirements with the specific elements with which such TIC amounts are associated and, for several remaining types of costs in the TIC, a flat, per

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[139] BellSouth estimates this amount to be $342,480.

presubscribed line charge to interexchange carriers (unless otherwise supported by the universal service fund).

BellSouth rejects any suggestion that LECs be forced to remove all TIC amounts entirely. The amounts in the TIC are largely the result of historical allocations of costs under the Commission's rules to the interstate jurisdiction and local transport in particular. These costs are thus legitimately included in and recovered by interstate transport rate elements and care must be taken to assure that LECs are afforded proper identification and handling of these amounts given the new competitive environment.

In the discussion which follows, BellSouth identifies the particular components of the TIC and suggests a means by which these amounts should be handled. In Attachment 5, BellSouth describes more fully the methodology used to determine the specific amounts shown.

b. Possible Sources of Costs in the TIC

i. Transport Rate Setting

Tandem switching. A portion of the costs in the TIC represents 80% of the interstate revenue requirement associated with the tandem switch. This amount should be removed from the TIC and recovered from users of tandem switching. As Attachment 5 shows, BellSouth has identified the dollar amount of the 80% revenue requirement (less CCS/STP) as $55,710,080.

SS7 Costs. A portion of common channel signaling ("CCS") costs are booked to Category 2 tandem switching. The Commission's LTR Order required that 80% of tandem switching costs be recovered in the TIC. These amounts should be removed from the TIC and, together with the 20% signaling costs presently recovered in the tandem charge, recovered

through the new rate elements to be established for signaling as discussed in Section VII.A.5. below.

As shown in Attachment 5, BellSouth has identified the portion of the 80% tandem switching costs included in the TIC which are attributable to the CCS network. The amount is $1,369,920.

Tandem-switched (Common) Transport Rate Setting. As the Commission observes, the tandem-switched transport rates adopted in the LTR Order were based upon several assumptions and averaging not reflective of the manner in which such service is provided. As indicated above, BellSouth supports eliminating inclusion of the SWC to AT portion of tandem-switched transport from usage-based rates, the application of a more cost-causative rate structure, and recovery of charges presently in the TIC from usage-charges for tandem-switched transport between the AT and the EO.

BellSouth has identified costs presently included in the TIC as a result of the non-cost causative rate structure and assumptions underlying the current rate structure and rates for tandem-switched transport. BellSouth obtained these amounts by adjusting the tandem-switched transport rates to account for: 1) assessment of the SWC to AT portion as dedicated transport measured from the SWC to AT; 2) assessment of the AT to EO portion as tandem-switched transport measured from the AT to EO; 3) adjusting tandem-switched rates to account for an additional multiplexer between the AT and EO, which mutliplexer is used but not accounted for under the current LTR-prescribed methodology; and 4) adjusting tandem-switched rates to account for a minutes of use per trunk average of less than the LTR-prescribed 9000 minutes of use. The detailed methodology used by BellSouth is described in Attachment 5. The resulting

amount, $49.2 million, should be removed from the TIC and recovered through rates charged to purchasers of tandem-switched transport between the AT and the EO.

Host-Remote Trunking Rate. BellSouth agrees that the revenues obtained from users of host-remote switched transport do not recover the full revenue requirement associated with such facilities. In order to identify the portion of such amounts included in the TIC, BellSouth identified host-remote circuit equipment and related cable and wire facilities and developed a Part 69 host-remote revenue requirement. See Attachment 5. The resulting amount, $ 4.8 million, should be removed from the TIC and recovered in tandem-switched transport rates.

Direct-trunked Transport Rate. The Commission observes that the special access rates which formed the basis of both the switched direct-trunked transport rates and the switched tandem-switched ("common") transport rates were based upon costs not entirely reflective of switched transport costs, because special access services are more heavily concentrated in low-cost, high density urban areas than are switched transport services. BellSouth discusses issues of revenue requirement differences between special access and switched access transport services in the next succeeding subsection.[140]

Multiplexing Associated with Trunk-Side Ports on Analog End Office Switches.

BellSouth has identified another component of the TIC. When a trunk is established to an end office switch, a combination trunk unit-DS1/VG multiplexer is used to terminate DS1s on the switch. These costs are allocated to switched transport through the Separations and Part 69 allocation process, and were not included in the special access rates upon which the switched direct-trunked rates were based. BellSouth identified the occurrence of such trunk ports at analog

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[140] See Section VII.A.4.b.ii., "Implicit Support for Universal Service."

end offices and, using the special access rates for the DS1 basic channelization system and associated voice grade service, developed the associated revenues. The resulting amount, identified by BellSouth as $6,334,008, should be removed from the TIC and recovered through Local Switching rates.

ii. Implicit Support for Universal Service

BellSouth has identified additional amounts which are included in the TIC as a result of occurrences such as cost misallocations, historical averaging, and cost recovery mechanisms. These amounts should be summed and billed on a per presubscribed line basis to interexchange carriers, if not recovered through universal service support mechanisms.

The Commission's Part 36 rules provide that central office equipment ("COE") expenses (Accounts 6210, 6220, and 6230) are to be apportioned among the LECs' operations on the basis of the separation of combined COE investments (Accounts 2210, 2220, and 2230). This results in a mismatch to the extent that maintenance expenses are apportioned differently than the particular investment to which the maintenance expense is attributable. In addition, Part 69 allocation rules result in the allocation of a portion of COE maintenance expense for local and operator switches to Common Line, Transport and Special Access where there is no switch investment to maintain, resulting in a net over-assignment of such expenses to the TIC. As Attachment 5 shows, BellSouth has identified the revenue requirement impact of assigning these expenses based on the specific assets being maintained as $ 15,052,000.

In addition, the Commission's Part 36 rules require that Category 4.23 Interexchange Circuit Equipment be assigned to categories, and thus to jurisdictions, based on the average cost per termination. However, it is possible to directly identify in the central office equipment costs

by jurisdiction where such costs are associated with private line services and message services which are not multi-jurisdictional in nature. The distribution of costs to categories and jurisdiction is different when direct identification rather than cost per termination are used to assign Category 4.23 costs. BellSouth directly identified such costs, in the amount of $84,678,084, as Attachment 5 shows.

The remainder of the TIC, $ 55,375,803, is attributable to certain historical events and processes. The local transport equal access rates, prior to the LTR Order, were derived from a "revenue requirement" which was the result of Commission-mandated rules for the allocation of investments and expenses. This process predominantly utilized general categorizing and averaging of costs across technologies, geographical areas (e.g., rural, suburban, urban), services and jurisdictions, with the key drivers being plant investments. Rates for special access services were based to a great extent on a unit investment approach which more specifically identified the actual plant used for each service.

Once rates were set under price cap rules, beginning in 1991, the direct link to revenue requirements was broken, but the price cap baskets and banding limitations allowed relatively little annual deviation from original rate-of-return rate levels and rate relationships. The transport restructure resulting from the LTR Order, which repriced switched transport services based upon special access high capacity rates, resulted in the TIC which consisted, to a large extent, of the differences in revenues between the two pricing schemes which, in turn, was largely the result of the difference in costing methods used historically for switched local transport and special access services (cost allocations for the former and direct identification of costs for the latter). Much of the TIC, therefore, represents the averaging of costs across technologies, geographies, and

jurisdictions (state and interstate) that were inherent in the cost allocations rules that determined the equal charge rates.

The use of the historical allocations process would result in a higher cost than the cost amounts that would be produced by a direct identification of local transport costs. In the cost allocation process, for example, the plant accounts are combined and then categorized into three general plant categories: exchange loop, exchange trunk and interexchange trunk. For jurisdictional separation purposes these categories are subcategorized into message and private line. Although the detail which would allow for direct identification is available at the subaccount level prior to categorization and separation process, this detail is lost in those processes. The difference in costs is currently in the TIC, even though these costs are actually incurred to provide local services, state services and/or interstate services other than local transport.

An additional component which should be removed from the TIC results from the use of special access rates for local transport. The use of special access rates ignored the fact that circuit equipment and cable and wire facilities which serve longer haul switched traffic have an embedded Part 36 cost that is many times the cost developed by using the special access costing methodology. The cost of hauling traffic to scattered local dial switches in remotely populated areas is several times more than the cost of hauling an equivalent unit of traffic in the large cities at special access rates. This cost differential has been averaged over the rate charged to all customers as part of the TIC. Most of the longer haul traffic is carried on "interexchange" facilities as defined in the Part 36 categorization rules and are allocated to the Part 69 transport element. As ARMIS shows, the cost per unit of traffic using interexchange facilities is

significantly higher than the cost per unit of traffic hauled over the exchange, more urban, type of facilities.[141]

5. SS7 Signaling

As the Commission observes, under the existing Part 69 rules, specific rate elements are provided for signaling links and signaling ports, with costs associated with other portions of a LEC's signaling network being recovered through the TIC. BellSouth supports the removal of signaling costs from the TIC and the adoption of an approach which would enable LECs the flexibility to assess charges for signaling services that best suit the manner in which such services are provided. For instance, as indicated above BellSouth supports the removal of amounts from the TIC which it has identified as signaling costs, as well as a realignment of the 20% of SS7 costs presently in the tandem charge.

The Commission has permitted Ameritech to utilize a very disaggregated rate structure for its signaling services. This rate structure may not be supportable in all SS7 environments. BellSouth has particular concerns regarding the ability to measure usage and support administration of the SS7 interconnetion elements implemented by Ameritech. Moreover, Ameritech's proposal does not necessarily provide the flexibility to address future signaling services such as open AIN. The Commission should adopt flexible rules related to SS7 interconnection which will allow each company to implement rates supportable within their

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[141] If the Commission authorizes reassignment of the TIC amounts from the TIC service band index to other service band indices such as Tandem-Switched Transport, the Commission must also permit LECs to adjust the relevant SBIs to assure that they have opportunity to recover the reassigned costs.

network architecture as that architecture evolves in the future. Thus, no single rate structure should be prescribed as a part of CRS.

For instance, BellSouth is planning for a rearrangement of its signaling network in the future to a more efficient arrangement which would reduce the number of signaling links and STPs utilized and which would render the actual STP locations transparent to the customer. With the enactment of the 1996 Act, the historical requirement imposed upon BOCs by the MFJ to provide an STP in each LATA has been removed.[142] The same signaling services which currently require a point of connection in every LATA can now be provided in a much more efficient arrangement for both a LEC and its customers by reducing both the number of STPs utilized to serve the signaling needs of customers as well as the number of signaling links which customers are required to purchase.

Under this arrangement, a customer could gain access to BellSouth's signaling network for all of BellSouth's thirty-eight LATAs using connections to a single STP. Link and port charges would apply. In addition, once the necessary technical capabilities are obtained, BellSouth would likely measure signaling traffic associated with a customer's link with distinct usage charges applying based upon whether the signaling is for call set-up or information transfer (e.g., information from 800 DataBase). This arrangement would be utilized for signaling for calls handled entirely by BellSouth as well as for signaling in connection with calls handled by others, such as alternative tandem switching providers.

As LECs restructure their existing signaling rate elements into restructured rate elements, the price caps restructure test should be required, but not the new services test. LECs signaling

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[142] 1996 Act, Sec. 271(g)(5) and (6).

services will be no more a new service than any other existing switched access service to which revenues from the TIC are being mapped. A restructure test would show the appropriate amounts being mapped from existing rate elements to the restructured rate elements, and would assure no more revenue than is presently obtained. Moreover, as signaling services become more and more competitive, LECs will have sufficient incentive to provide their own services at reasonable rate levels.

Signaling services should be placed in the tandem-switched transport price caps service category. This reflects the fact that, for the most part, the signaling network will be shared in common by multiple customers. A requirement to separately track signaling service components, such as links and ports, to different service categories should not be imposed. As discussed above, BellSouth can offer signaling service in a cost-effective and innovative manner. The service offered utilizes an entire signaling network. Price management by links and ports makes no economic sense. Finally, the Commission should permit exogenous cost treatment of the costs associated with the equipment purchased by LECs which is required in order to separately measure call set-up and information transfer type signaling messages.

B. New Technologies (Para. 139)

The Commission requests comment on how it should take the availability of new technologies into account in determining the appropriate access rate structure rules. BellSouth urges the Commission to refrain from prescribing any new rate structures for services which utilize new technologies. Such an approach would be unnecessarily regulatory and, thus, contrary to the deregulatory approach embodied in the Telecommunications Act.

Moreover, the Commission's rules have permitted LECs substantial flexibility to develop their own rate structures for special access services constrained only by certain very general guidelines.[143] There is no reason that switched access services cannot be afforded the same treatment, especially given that the CRS will assure that all customers will have available to them the traditional switched access services under a rate structure approved by the Commission in this proceeding as a backstop protection against any potential anti-competitive conditions which might be perceived to result from greater flexibility for services utilizing new technologies. At a minimum, the Commission should grant the same rate structure flexibility for switched access dedicated transport services as exist for special access services, given the substantial similarities between these two offerings and the fact that the CRS would still be available for traditional dedicated switched transport service as protection.

C. Regulation of Terminating Access (Paras. 271-281)

The Commission asks whether special measures should be adopted in order to prevent a LEC from using its alleged bottleneck market power to assess unreasonably high terminating access rates. The Commission reasons that an end user customer who chooses a service provider will not be paying for terminating access charges on calls made to it and, thus, will not likely make the choice based upon terminating rates, and that there may not be sufficient controls to prevent potentially excessive terminating access pricing.

BellSouth submits that the availability of interconnection arrangements to alternative providers will act as a sufficient constraint on any potentially excessive terminating access charges. BellSouth believes that it will be impossible to police which calls coming onto

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[143] 47 C.F.R. Section 61.40.

BellSouth's network are local calls and which are access calls and that providers will attempt to pass off access calls at the lower interconnection rate. A LEC will therefore have the incentive over time to price terminating access at or close to the rates for terminating interconnection arrangements.

Additionally, it should be recognized that BellSouth, once it is permitted to offer interexchange service from its own region, will pay the same price for access, including terminating access, as any other interexchange carrier. Therefore, the entry into the interLATA long distance business of BOCs does not require any special constraints be placed on terminating access charges.

Moreover, if the Commission adopts the proposals made by BellSouth herein, the price of terminating access should decrease in any event. For instance, BellSouth suggests a flat per-line CCL charge to primary interexchange carriers (or end users where no primary carrier has been chosen). This charge will be assessed regardless of the extent to which a line is used for originating as opposed to terminating access. Non-traffic sensitive costs in local switching would also be removed from the minutes of use rate and recovered on a flat rate basis. In addition, BellSouth is suggesting realignment of TIC charges, which will affect transport charges. Under this proposal, TIC charges will no longer be assessed as they are today to all local switching users, but rather the bulk of TIC charges will be assessed elsewhere resulting in lower terminating access charges for many transport users. Even where an interexchange carrier has a need for tandem-switched transport and cannot escape the usage charges which may be associated with the

LECs' service as a result of the TIC realignment, that carrier has available to it real alternatives in the form of unbundled network elements and competitive service providers.[144]

Above all, if the Commission adopts regulations in this area, they should be applied to all LECs, not just incumbent LECs. The problem which the Commission sees, i.e., a market power bottleneck associated with terminating access, has just as much potential to exist with non-incumbents as with incumbents. Indeed, there would appear to be no reason to exempt the former from any solution, if one is necessary at all.

D. Treatment of Interstate Information Services (Paras. 282-290)

Since their inception, the access charge rules have exempted enhanced service providers ("ESPs") from paying interstate access charges. The ESP exemption was initially conceived as a transition mechanism to avoid rate shock in the relatively nascent information services segment of the telecommunications industry. There was and continued to be very little traffic generated by ESPs relative to other public switched network traffic.

The widespread use of personal computers and the demand connectivity has given rise to a new form of enhanced service, the Internet. The use of the Internet is growing and is expected to grow exponentially. It represents a potentially important resource in a variety of public policy areas such as education and medicine.

The Internet phenomenon has never been fully analyzed within the context of access charges. At one level, there is considerable Internet usage and this usage has different

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[144] If the Commission does deem there is a need for additional regulations in this regard, it could consider adopting an asymmetric regulatory approach for originating and terminating access, pricing terminating access at the local interconnection rate and permitting an exogenous rate increase on originating access to offset revenue lost as a result.

characteristics than the typical voice traffic that transits the public switched network. This gives rise to equitable concerns such as whether Internet usage should be treated differently than other usage. It also gives rise to operational concerns regarding congestion of the public switched network.

Given the importance of the Internet in the development of public policy, the Commission should be sure that its telecommunications policy fosters efficient use of the telecommunications network which includes public switched voice traffic as well as Internet traffic. To achieve this goal is more complex than just deciding whether to apply or not to apply access charges. The solution will require far more creative approaches that will necessitate, among other things, consideration of the appropriate jurisdiction for Internet access and the investigation of market-based incentives that would direct Internet traffic to packet-switched networks. Until these types of solutions are explored, changing the ESP exemption might only achieve disrupting the marketplace rather than making it operate more efficiently.

E. Other Part 69 Issues (Paras. 291-299)

1. Equal Access Network Reconfiguration Costs

The Commission asks whether or not it should require LECs to make an exogenous cost decrease to account for the completion of the amortization of equal access costs. The Commission has asked the same question previously, in its LEC Price Cap performance review proceeding, and found that there was not a sufficient basis to support such a requirement.[145] If there was insufficient support for such a requirement then, there is still insufficient support here.

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[145] *Lec Price Cap Performance Review Order*, 10 FCC Rcd at 9094-9095.

Moreover, it should be a sufficient basis to deny exogenous treatment of such costs now given that no exogenous cost increase was permitted at the time LECs' price cap tariffs were initialized.

2. Part 69 Allocation Rules

The Commission should eliminate its Part 69 cost allocations rules. BellSouth, as a price cap LEC, does not use these rules for ratemaking purposes. Although BellSouth does presently use such rules for internal purposes such as developing exogenous cost amounts, there are other ways in which such amounts can be developed. Moreover, although BellSouth uses the Part 69 cost allocation rules on its ARMIS reports, there is no need for the Commission to continue to require such reports or, consequently, the Part 69 allocation rules themselves.

3. Other Proposed Part 69 Changes

The Commission questions whether there are other Part 69 rules which should be revised or eliminated. As a preliminary matter, the Commission's rules should be revised to reflect adoption of the CRS rules described by BellSouth herein. A thorough review of the Commission's Part 69 rules would be made in conjunction with this to discard rules which are no longer necessary, and to revise any remaining rules accordingly. As a part of the CRS, the rules would be revised to permit LECs to adopt alternative rate structures in addition to making the CRS rate elements and rate structure available to customers. As BellSouth has explained, as long as the CRS remains available as a backstop to any potential harm which the Commission might perceive to result from a LEC's exercising such rate structure flexibility, there is no reason to prohibit LECs such flexibility.

Nevertheless, BellSouth will address the specific questions raised by the Commission regarding its Part 69 rules.

First, the Commission suggests changing the definition of "Telephone Company" in its Part 69 rules to "incumbent LEC." The Commission must refrain from doing so. The Commission's Part 69 rules apply to all local exchange carriers. As BellSouth has discussed, the CRS should be mandatory for all LECs, even non-incumbent LECs. If a particular local exchange carrier, incumbent or non-incumbent, believes that it should be exempted from the Part 69 requirements, then it should be required to file a forbearance petition under Section 160 of the Telecommunications Act[146] and to make the required showing thereunder. Until such forbearance determinations are made, there can be no change in the present application of the Commission's Part 69 rules to all local exchange carriers.

The Commission asks whether Sections 69.4(f) and 69.122, which refer to a "contribution charge," should be eliminated. BellSouth agrees.

The Commission asks if there are Part 69 rules that are no longer effective, citing Section 69.107, 69.308, and 69.410, all relating to the equal access rate element. BellSouth sees no need for these sections of the rules.

The Commission proposes to remove Section 69.4(d) and replace it with a new rule provision which states, "Such a tariff shall not contain any separate carrier's carrier tariff charges for an Equal Access element." BellSouth has no objection to such change.

The Commission suggests removing the reference to Section 69.308 in Section 69.309, and the reference to Section 69.410 in Section 69.411, regarding equal access investment and expenses. BellSouth has no objection to removing these rules.

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146 47 U.S.C. §160.